

# CLEARVIEW

"A weekly agricultural commodity analysis"

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## Can Demand Keep Up With Grain Prices?

### Summary:

Outside markets continue to steer the grains, although their influence has shifted from relentlessly bullish to mixed. Crude oil has made new 2009 highs this week, but volatility in the US dollar seeped over into the grains. Wednesday's USDA report was moderately bullish fundamentally, but the corn and wheat markets instead focused on the stronger dollar. It appears likely that the markets will be more interested in the June 30 Planted Acreage report than they were in today's supply/demand report.

### Corn:

USDA made expected changes to their 09/10 projections, lowering expected yield to 153.4 bu/acre (a 2 bushel reduction) and expected ending stocks to 1.09 billion bushels from 1.145. Ethanol usage projections were held at 4.1 billion bushels, a level we find optimistic, while feed usage projections were reduced 100 million bushels to 5.15 billion. The livestock sector has been plagued by the unprofitable mix of high grain prices and low meat demand, making us fear a round of consolidation and capacity reduction. One wildcard is weather -- planting is essentially complete, but the Midwest needs some warmer weather to push crop development along. This week's progress report pegged Illinois corn averaging 7 inches high, equalling last years' development at this time but 5 inches behind average.

### Wheat:

The supply/demand estimates contained a curious entry -- despite USDA reducing forecasted demand and raising projected ending stocks, they raised the expected average cash price for wheat. It appears the government is assuming that a weaker dollar will give a boost to US export business, or perhaps that inflation will boost commodity prices. Either way, wheat fundamentals look very negative at current prices.

### Soybean Complex:

Old-crop ending stocks estimates were reduced to 110 million bushels, less than half of the level that caused some problems late in the 07/08 crop year. Futures markets did not react much as falling basis levels and an absence from last week's export inspections suggests that China has stopped buying US soybeans for the time being. The market will be very interested in the planted acreage report to see how much soybean plantings have increased in response to the bull market of the last three months. Argentine production estimates were reduced to 32 MMT, supporting meal and boosting crush margins.

## Upcoming Calendar:

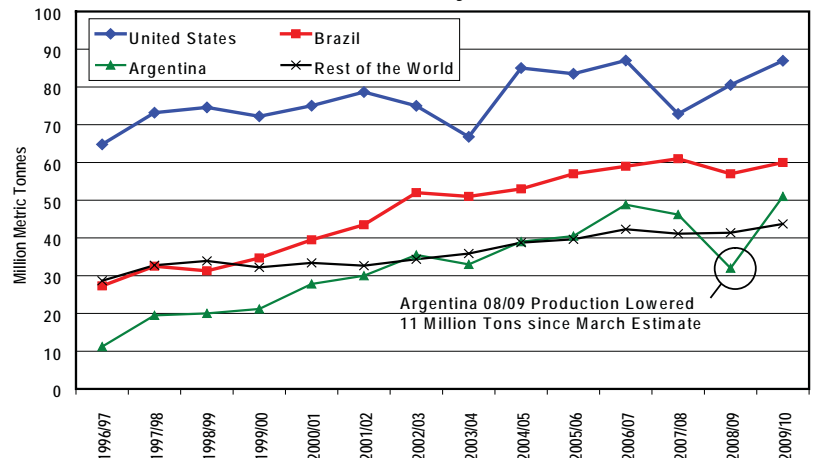
### Monday, 6/15, 3:00 pm; Crop Progress

- Last week, corn was 97% planted nationally vs. 99% average.
- Corn was 87% emerged vs. 94% average.
- Corn conditions were 69% good-to-excellent vs. 60% last year.
- Soybeans were 78% planted and 55% emerged vs. 87% and 70% averages.
- Spring wheat was 84% emerged vs. 97% average.
- Winter wheat was 84% headed and 5% harvested vs. 88% and 10% last year.

### Friday, 6/19, 2:30 pm; Cattle-on-Feed

### Tuesday, 6/30, 7:30 am; Planted Acreage

US, Brazil, Argentina and Rest of the World Soybean Production



## The Market Shrugs Off USDA's Report

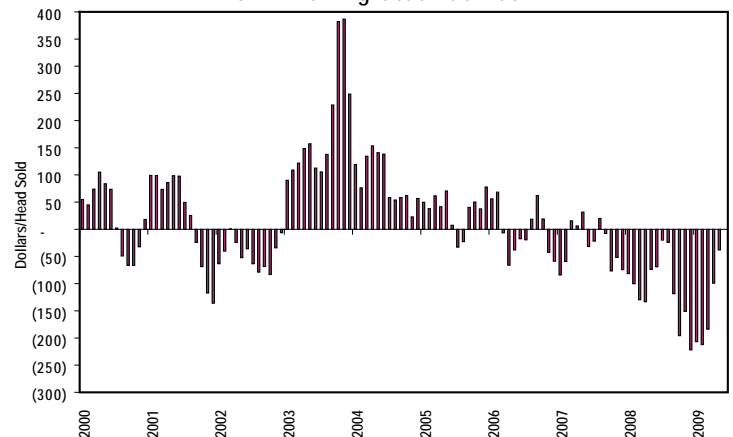
Wednesday's release of the June supply/demand report was not a significant market mover, although it did contain some interesting pieces of data. There were no major surprises, however, and the market quickly turned back to the market influences that have been the primary drivers in recent weeks – particularly the price of oil and the relative strength of the US dollar.

In the supply/demand report, USDA made a widely-anticipated reduced their 09/10 average corn yield projection by 2 bushels/acre to 153.4, citing the delayed planting pace in Illinois and Indiana for the adjustment. This reduction was not unexpected, although we still believe that an average national corn yield closer to the trendline of 156 bu/acre is possible. Last year at this time, large parts of Iowa, Illinois and Indiana were under water from massive flooding, and even that could only push 08/09 yield down to 153.9 bu/acre. While planting in Illinois was only 93% complete as of Monday (and at this late date some unplanted fields are likely to be abandoned or planted with other crops), the other three top corn producing states (Iowa, Nebraska and Minnesota) actually completed spring planting ahead of average pace and have seen generally good conditions to date. However, the consistently unseasonably cool temperatures being seen across the Midwest threaten to cause some damage going forward. While corn emergence is moving along at an average pace in most states, we are hearing stories of corn yellowing from a lack of warmth. It is too early to predict a weather-driven bull market for this summer, but with 6-10 day forecasts calling for mostly moderate temperatures across the Midwest, the market will find some support from fears about crop development.

USDA left their projection for corn-for-ethanol usage unchanged at 4.1 billion bushels, which represents a 10% increase over 08/09 and may sound a little extreme given the high current price of corn, but the run up in oil prices has given many ethanol producers at least a temporary, moderate reprieve from the low-margin environment of previous months. Our estimates indicate that at current prices, a typical ethanol plant should be able to lock in profits between 25-40 cents/bushel for the next few months. By our estimates, there are 144 corn-based ethanol plants currently in operation in the United States with an average production capacity of 67 million gallons per year, 29 plants either under construction or expansion (with a capacity of 87 million gallons) and 29 plants that are shut down. The plants currently in operation would use about 3.5 billion bushels of corn per year (at 2.8 gallons of ethanol per bushel). If you assume that 20 of the plants that are currently shut down (which includes four former-VeraSun plants purchased by Valero Energy and six others that were taken over by AgStar) are returned to service next year and five expansion projects are completed, total production capacity would increase to 11.5 billion gallons of ethanol, demanding 4.1 billion bushels of corn. Will production margins increase to the point that this many plants will be re-opened? It appears that this would be a best-case estimate that USDA is putting into the report, but if grain prices drop in the next few months

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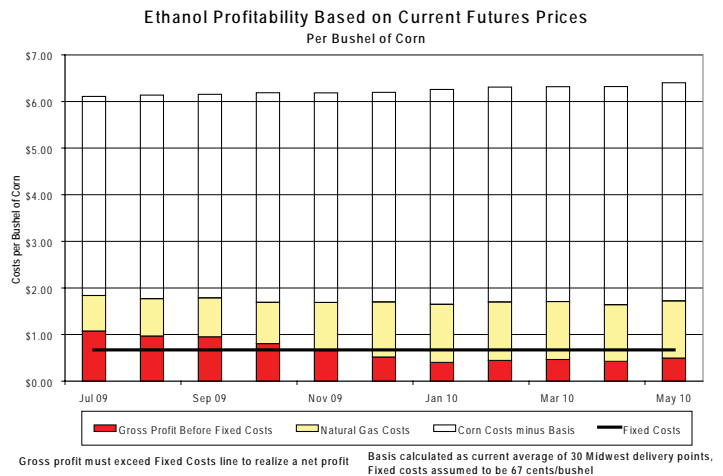
Estimated Returns  
for Finishing Steer Calves



## Market Shrugged, cont.

than perhaps that level of demand is attainable.

Demand from the livestock sector, however, is much more questionable. According to Iowa State University research, as of May, average profit margins for finishing steer calves have been negative for the last 21 months, and 23 of the last 24. Returns for farrowing and finishing hogs have not been much better, registering losses for 8 consecutive months and 18 of the last 20. The problem is simple – feed/cost ratios for livestock producers have been very poor for an extended period of time, and it remains to be seen how much longer the industry can continue to operate without either a drop in input costs or a significant capacity reduction. The implication for corn demand is clear: as long as high prices continue, eventually feed demand will drop.



Projected soybean ending stocks for 2008/09 were lowered by 20 million bushels to 110 million, falling well below the 205 million bushel ending stocks number for 07/08 that saw a supply squeeze late in the crop year. The reduction was expected by the market and had little effect on old-crop soybeans, but the reduction combined with a reduction in projected Argentine soybean production to 32 million metric tons (30% below 07/08) lent support to soybean meal and kept old crop board crush levels extremely high. One thing that might alleviate a shortage in upcoming months, however, is USDA's entry into the balance sheet of 73 million bushels of beans set aside for "residual usage." This number – essentially undetermined demand – was zero in 07/08, meaning that there could be more of a demand "safety net" built into the numbers this year.

Also offering some potential downside for old crop soybeans was the sudden disappearance of Chinese buyers of US soybeans. In recent months, sales to China have typically accounted for 40-80% of weekly sales inspected for export, but in the week ended June 4 there were no sales registered to China. A large part of this is likely explainable as a normal seasonal shift to South American purchases, where new crop beans have finally become widely available, but there has also been some speculation that China may begin selling some of the 7 MMT of domestic soybeans they have stockpiled.

Looking ahead, the market will likely find the June 30 release of the planted acreage report to be more important than today's supply/demand report. That will give the government's estimate of whether or not there was significant increase in soybean acreage this spring in reaction to the bull market, and also show if farmers were forced to turn away from corn plantings in large numbers due to the wet spring. Our guess is that soybean acreage will see a jump, but not at much expense to corn plantings. USDA's estimates have called for total plantings to decline by 7 million acres from last year, and we believe that farmers would be more likely to bring land back into production or switch away from cotton, rice or spring wheat than they would to turn away from corn in fields that had already been fertilized.

Overall, there may now be less downside to grain prices in the near term, as weather concerns are likely to bring some underlying support should temperatures remain cool, but the implications of high grain prices on demand are becoming enough of an issue for us to believe that the current fund-driven bull market is ready to top out. The trick will be for the grain consumers being hurt by the bull market to stay in business until it ends.

### Recommendations:

Previous recommendations are for corn and meal buyers to have all needs covered through the second quarter of 2009.

## CFTC to Slam the Door on Index Funds?

For the past several years, the presence of commodity index funds has been a major market focus, and has been a source of much controversy. Driven by sheer size, their purchasing power and need to keep their baskets of commodities balanced has led to increased correlation between commodity markets, and has caused the movements of crude oil prices and the value of the US dollar to become one of the largest factors in determining short-term price moves. Most of these index funds have operated through the lightly regulated OTC market, meaning that the CFTC has had little oversight of their operations or ability to ascertain their size. Now, however, that may change.

The CFTC is accepting public comments on a proposal to eliminate the bona fide hedge exemption that has been in place to facilitate the creation of the massive swaps that index funds undertake, as well as to increase the level of disclosure that a swap dealer must make about their trading partners, specifically if the counterparty is a speculator or legitimate hedger.

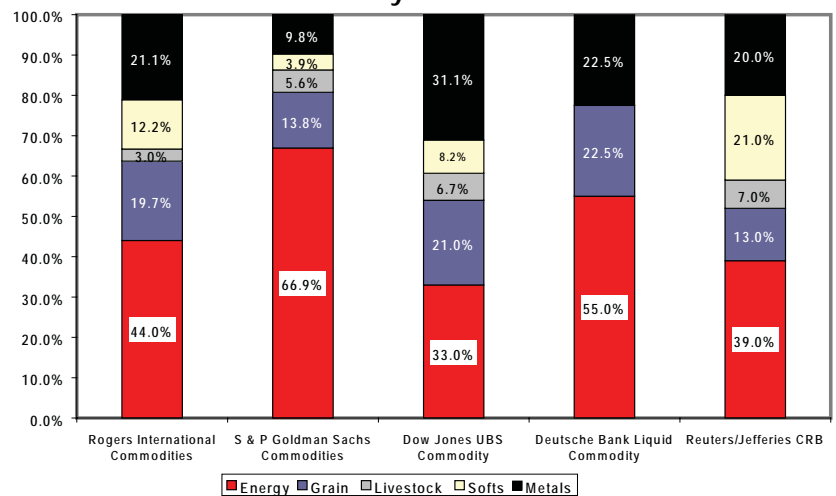
Traditionally, OTC swap dealers have been exempt from speculative position limits because the counterparties were typically companies involved in hedging operations that were using the OTC market to avoid the accounting issues associated with having futures and options on their balance sheets. Because the swap dealers had unlimited financial risk with their clients, they were allowed to act as a commercial entity while hedging their exposure in the futures market and were not subject to speculative position limits.

As index fund investments began to rise, however, the swap dealers found themselves needing to hedge large speculative positions that were tracking the underlying indexes, essentially, the swap dealers would have to dynamically manage large net positions to insure that their holdings would mirror the returns of the underlying index that their index fund clients were tracking. This meant that, for example, on a day that crude oil prices rallied, the swap dealer would have to buy grain futures in order to keep the value of their holdings balanced. In 2006, CFTC granted an exemption to speculative position limits to swap dealers handling index fund clients with a few requirements: the swap positions must offset specific price risk (the swap dealers must be enacting a hedge for a speculating client, rather than speculating themselves), the underlying funds must be unleveraged (so that an adverse price move could not cause a wipeout due to a massive margin call), and the index funds could not carry positions into a delivery month.

As the commitments of traders data shows, index funds are one of the most dominant market forces due to their massive buying power. According to our estimates, about \$120 billion is currently invested in diversified commodity indexes, with most of that (as much as 90%) tracking the two largest

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Commodity Index Funds

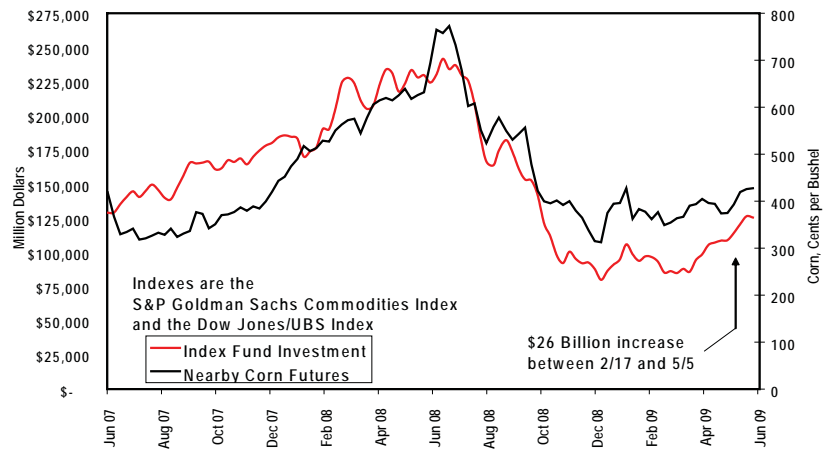


**The Dollar's Slide, cont.**

indexes, the GSCI and Dow Jones/UBS indexes. From the perspective of the fundamental analyst, the problem with having so much money following one trading strategy is that the market can be pushed out of line from fundamentals for extended periods of time.

The questions that CFTC is seeking comment on raise some interesting questions about what may happen should new regulations be imposed upon swap dealers. It appears that CFTC is considering two major items – should swap dealers handling index funds have their position limit exemptions revoked, and should the swap dealers be required to disclose the identities and positions of their non-hedging clients?

Money Tracking the "Big 2" Indexes



Source: PK Verleger, Brock estimates

It is unlikely that there are very many individual clients that are over speculative position limits. For a non-marginable investment fund tracking the GSCI index, which is 4.7% weighted toward corn, to exceed speculative limits (22,000 contracts) the fund would need to have about \$9 billion invested. The world's largest pension fund, CalPERS, has about \$250 billion under management and has a stated goal to invest up to 3% of that in commodities by the end of 2010, which would equal only about \$7.5 billion. In September, 2008, CFTC commissioned a study of swap investments in the crude oil market, and determined from their studies (which only covered a handful of dates) that fewer than five customers were likely to be in excess of speculative position limits at any given time. So imposing position limits on the customers themselves is unlikely to make much of a difference on their operations unless another large price rally takes place, and then the limits would serve to dampen any irrational rally as large funds would be forced to stop buying once the market value of their holdings increases to a certain point.

However, should the hedging exemption for swap dealers handling index funds be revoked, the implication for the index fund business could still be significant. Removal of the exemption means that the dealers would only be able to work with a limited number of clients to insure that their total market commitment cannot exceed position limits (not including what the dealer may be able to offset with opposing OTC transactions with bona-fide hedging companies). With Wall Street undergoing such turmoil, the number of companies with the capital, resources, and funding to serve as swap dealers is dwindling, meaning that the removal of the hedge exemption would likely limit market access for many large funds, forcing them to impose limits on the amount of capital they are willing to manage (in order to keep their maximum positions under control).

Based on the wording of CFTC's rule proposal, they are serious about increasing the oversight of OTC swaps and index fund operations, but the real question is how significant the market impact will be, both in the near term and long term. As long as the swap dealers that are currently in excess of position limits are given enough time to allow their positions to fall back under the threshold (as current swap agreements expire and are not renewed) the market impact should be limited. Index funds themselves would likely have to change their prospectuses to reflect that only a certain amount of capital can be committed to the futures market at any given time.

The bottom line is that the era of the commodity index fund as a dominant factor in the futures market is likely drawing to a close. The funds have been marketed as hedges against inflation and as offering returns uncorrelated with the stock market, but performance over the last two years has disproven both theories as fund values have collapsed along with equity markets. Add to that the prospect of an increased level of government oversight over the funds, and it becomes more likely that investors – many of whom lost significant amounts of money in index funds last year – will be wary of making significant investments in them again.

US CORN SUPPLY AND DEMAND						
	USDA		Brock Est.			
	08/09 Est.	09/10 Est.	08/09	09/10	10/11	11/12
<b>ACREAGE (Mil. Acres)</b>						
Planted Area	86.0	85.0	86.0	85.0	85.0	86.0
Harvested Area	78.6	77.8	78.6	77.4	77.4	78.3
Yield	153.9	153.4	153.9	156.5	162.0	164.0
<b>SUPPLY (Mil. Bushels)</b>						
Beg. Stocks (Sep 1)	1,624	1,600	1,624	1,665	1,375	1,098
Production	12,101	11,935	12,101	12,113	12,539	12,841
Imports	15	15	15	12	10	10
Total Supply	13,740	13,550	13,740	13,790	13,923	13,950
<b>USAGE (Mil. Bushels)</b>						
Feed & Residual	5,350	5,150	5,300	5,150	5,400	5,400
Food/Seed/Ind	5,040	5,410	5,040	5,465	5,575	5,610
Ethanol for Fuel	3,750	4,100	3,700	4,050	4,150	4,200
Domestic Use	10,390	10,560	10,340	10,615	10,975	11,010
Exports	1,750	1,900	1,735	1,800	1,850	1,900
Total Use	12,140	12,460	12,075	12,415	12,825	12,910
<b>STOCKS (Mil. Bushels)</b>						
Ending Stocks (Aug 31)	1,600	1,090	1,665	1,375	1,098	1,040
CCC	0	0	0	0	0	0
Privately Owned	1,600	1,090	1,665	1,375	1,098	1,040
Stocks/Use	13.2%	8.7%	13.8%	11.1%	8.6%	8.1%
Farm Price (\$/Bu)	\$4.10-\$4.30	\$3.90-\$4.70	\$3.90-4.30	\$3.80-4.60	\$4.00-5.00	\$4.00-5.50

US WHEAT SUPPLY AND DEMAND						
	USDA		Brock Est.			
	08/09 Est.	09/10 Est.	09/10	10/11	11/12	12/13
<b>ACREAGE (Mil. Acres)</b>						
Planted Area	63.1	58.6	58.6	58.5	57.5	58.0
Harvested Area	55.7	48.9	49.1	49.7	48.9	49.5
Yield	44.9	41.2	42.0	43.1	43.4	44.0
<b>SUPPLY (Mil. Bushels)</b>						
Beg. Stocks (Sep 1)	306	669	669	628	689	693
Production	2,500	2,016	2,062	2,142	2,122	2,178
Imports	125	115	100	100	100	100
Total Supply	2,930	2,799	2,831	2,870	2,911	2,971
<b>USAGE (Mil. Bushels)</b>						
Food	922	955	955	968	977	977
Seed	79	78	78	78	76	76
Feed & Residual	250	240	220	210	215	215
Domestic Use	1,251	1,273	1,253	1,256	1,268	1,268
Exports	1,010	900	950	925	950	950
Total Use	2,261	2,173	2,203	2,181	2,218	2,218
<b>STOCKS (Mil. Bushels)</b>						
Ending Stocks (Aug 31)	669	647	628	689	693	753
CCC	0	0	0	0	0	0
Privately Owned	669	647	628	689	693	753
Stocks/Use	29.6%	29.8%	28.5%	31.6%	31.3%	34.0%
Farm Price (\$/Bu)	\$6.85	\$4.90-5.90	\$5.00-6.00	\$5.00-6.00	\$5.00-6.00	\$5.00-6.00

US Wheat by Class: Supply and Use						
Million Bushels						
2008/09	Hard Winter	Hard Spring	Soft Red	White	Durum	Total
Beg. Stocks (June 1)	138	68	55	37	8	306
Production	1035	512	614	254	85	2500
Total Supply*	1174	627	700	298	132	2931
Domestic Use	462	252	346	106	85	1251
Exports	445	215	190	135	25	1010
Total Use	907	467	536	241	110	2261
Ending Stocks	267	159	164	52	22	664

\*Includes Imports

## Corn and Wheat Summary

**Corn:** Planting progress reached 97% last week, a little behind average and likely to impact yields slightly this summer. Wednesday's crop report contained no surprising news, as the 2 bu/acre cut in 09/10 yield expectations was expected. We, however, believe there is still potential for higher yields given that Iowa, Nebraska and Minnesota have seen good conditions -- assuming the weather warms up soon.

### **Bullish factors:**

- Fears of a weather market this summer will lend seasonal support.
- Possible cuts in ending stocks estimates could scare the market higher.
- Index funds have reappeared as buyers amid crude oil strength.

### **Bearish factors:**

- Planting is essentially complete.
- Livestock and feed companies are in dire straits, with a round of demand-cutting bankruptcies and consolidation possible.
- Weekly exports were very disappointing.

**Wheat:** USDA's report was a little confusing for wheat as the government lowered usage estimates and raised ending stocks estimates, but increased farm price projections. Global demand projections were also reduced, reflecting the slack economy.

### **Bullish factors:**

- US dollar weakness is seen as good for wheat export demand.
- Planting and production estimates have been reduced, especially for spring wheat.

### **Bearish factors:**

- Winter wheat harvest is underway which should remove some risk premium from the market.
- The recent wheat rally had more to do with outside markets than fundamentals.

## US SOYBEAN SUPPLY AND DEMAND

	USDA		Brock Est.			
	08/09 Est	09/10 Est	08/09	09/10	10/11	11/12
<b>ACREAGE (Mil. Acres)</b>						
Planted Area	75.7	76.0	75.7	77.0	75.5	74.0
Harvested Area	74.6	75.0	74.6	76.0	74.5	73.3
Yield	39.6	42.6	39.6	43.0	43.5	44.5
<b>SUPPLY (Mil. Bushels)</b>						
Beg. Stocks (Sep 1)	205	110	205	120	299	402
Production	2,959	3,195	2,959	3,268	3,241	3,262
Imports	12	12	12	5	5	5
Total Supply	3,176	3,317	3,176	3,393	3,545	3,669
<b>USAGE (Mil. Bushels)</b>						
Crush	1,650	1,675	1,650	1,675	1,700	1,750
Seed	94	92	93	94	93	93
Residual	73	79	73	75	80	80
Domestic Use	1,817	1,846	1,816	1,844	1,873	1,923
Exports	1,250	1,260	1,240	1,250	1,270	1,300
Total Use	3,066	3,105	3,056	3,094	3,143	3,223
<b>STOCKS (Mil. Bushels)</b>						
Ending Stocks (Aug 31)	110	212	120	299	402	446
Stocks/Use	3.6%	6.8%	3.9%	9.7%	12.8%	13.8%
Farm Price (\$/Bu)	\$10.00	\$9.00-11.00	\$9.25-10.50	\$9.00-\$10.75	\$8.00-9.00	\$7.50-9.00

## US SOYBEAN MEAL SUPPLY AND DEMAND

	USDA		Brock Est.		
	08/09	09/10est	08/09	09/10	10/11
Crush (Mil. Bushels, Oct/Sep)	1,650	1,675	1,650	1,675	1,700
Meal Yield (Lbs/Bu.)	47.47	47.56	47.27	47.16	48.24
<b>SUPPLY (1,000 Short Tons)</b>					
Beg. Stocks (Oct 1)	294	300	294	300	305
Production	39,166	39,835	39,000	39,500	41,000
Imports	140	165	166	155	155
Total Supply	39,600	40,300	39,460	39,955	41,460
<b>USAGE (1,000 Short Tons)</b>					
Domestic Use	30,500	30,800	30,800	31,150	32,500
Exports	8,800	9,200	8,360	8,500	8,600
Total Use	39,300	40,000	39,160	39,650	41,100
<b>STOCKS (1,000 Short Tons)</b>					
Ending Stocks (Sep 30)	300	300	300	305	360
Avg. Price (\$/Ton)	\$320	\$275-335	\$275-325	\$250-300	\$220-300

## US SOYBEAN OIL SUPPLY AND DEMAND

	USDA		Brock Est.		
	07/08	09/10est	08/09	09/10	10/11
Crush (Mil. Bushels, Oct/Sep)	1,650	1,675	1,650	1,675	1,700
Oil Yield (Lbs/Bu.)	12	11	11.39	11.45	11.45
<b>SUPPLY (Million Pounds)</b>					
Beg. Stocks (Oct 1)	2,483	3,013	2,483	2,678	2,226
Production	18,730	19,010	18,645	19,300	20,000
Imports	100	75	50	48	49
Total Supply	21,313	22,098	21,178	22,026	22,275
<b>USAGE (1,000 Short Tons)</b>					
Domestic Use	16,200	16,500	16,500	17,000	17,500
Exports	2,100	2,950	2,200	2,800	2,600
Total Use	18,300	19,450	18,500	19,800	20,100
<b>STOCKS (1,000 Short Tons)</b>					
Ending Stocks (Sep 30)	3,013	2,648	2,678	2,226	2,175
Avg. Price (Cents/lb)	34	33.00-37.00	30.0-32.0	38.0-50	45.0-60.0

## Soy Complex Summary

The June 30 plantings report will be more important for the market than the supply/demand report was, as that will reflect how much acreage may have increased due to the recent bull market. As expected, 08/09 ending stocks estimates were reduced by 20 million bushels to 110 million, leaving the market still concerned about supply shortages. Chinese demand, however, may drop quickly as they suddenly disappeared from the export inspections report last week. Argentine crop estimates were reduced further to 32 MMT, lending more support to soybean meal markets and keeping nearby crush rates exploding to the upside.

### **Bullish Factors:**

- Old crop crush rates are still strong, reflecting fears about supply shortages.
  - Fears about supply shortages later in the crop year are showing up in very strong basis levels.
  - Soybean planting and emergence is still behind last years' flood-damaged pace.
- ### **Bearish Factors:**
- Is Chinese soy buying slowing?
  - Possible switch of acreage into soybeans could still show up in the June 30 report.
  - High prices adversely affect feed demand.

### Recent Crush Prices

	30 Day		
	Jun 10	Average	Oilshare
Jul	88.19	80.19	31.8%
Aug	85.35	81.91	33.8%
Sep	99.07	98.41	35.3%
Oct	95.33	96.09	36.6%
Dec	81.80	83.09	37.3%

## Corn Conditions Stable

U.S. corn crop conditions held relatively stable last week as some areas of the western Corn Belt received beneficial rainfall, but there were reports of acreage switching in the eastern Belt, where wet conditions continued to slow planting.

Monday afternoon's USDA weekly crop update rated U.S. corn conditions 69% good/excellent as of Sunday, down 1 percentage point from a week earlier, but 9 points above a year earlier. Conditions in the top corn state of Iowa rated 81% good/excellent and the Nebraska crop rated 84% good/excellent. U.S. corn planting advanced to 97% complete, behind the average pace of 99%, leaving about 2.55 million acres out of the 85 million intended for corn production still unplanted. In the No. 2 corn state of Illinois planting progress reached 93% against an average pace of 99%, but unplanted acreage was already being switched out of corn.

U.S. corn emergence advanced 13 percentage points to 87%, on par with a year earlier, but behind the five-year average of 94%. Corn emergence continued to lag significantly in Illinois and Indiana, though, with Illinois emergence at 73% against a five-year average of 96% and Indiana emergence at 72% respectively against an average of 92%. The average height of Illinois corn that had emerged was put at 7 inches, even with a year earlier and 8 inches shorter than the 5 year average as cool temperatures limited crop growth. The statewide average temperature of 65.9 degrees Fahrenheit was 2.8 degrees below normal, according to the Illinois office of the National Agricultural Statistics Service.

## Trading Hours to Expand

CME Group announced on Friday that electronic trading hours for CBOT grains, oilseeds and ethanol futures contracts will be expanded in the morning by one hour and fifteen minutes, until 7:15 a.m., beginning July 1.

The new electronic trading hours will run from 6:00 p.m. to 7:15 a.m. CDT time Sunday through Friday for futures and options on futures for full and mini-size where offered corn, wheat, soybeans, soymeal, soyoil, rice, oats and ethanol contracts. Daytime electronic and open outcry hours will remain from 9:30 a.m. to 1:15 p.m. weekdays.

The move is aimed at further boosting business on that platform. "This provides more trading hours to our European customers and is more convenient for them," said CME Group spokeswoman Mary Haffenberg. "They're trying to capture more business. There are markets open that time of the day and they are meeting the competition," a trader told Reuters News Service.

Some traders said it was another step by the CME, the world's largest derivatives exchange, to eventually offer electronic trading 24 hours a day. "The exchange thinks it will expand volume, and it might, but I don't think by a lot. But it's another step in their quest toward 24-hour trading," a trader told Reuters News Service. A CME trading floor source told Reuters the reason the CME will stop trading at 7:15 a.m. is because of the monthly release of sensitive U.S. Department of Agriculture crop information at 7:30 a.m. CDT.

"The hang-up is the 7:30 USDA reports. We don't want to be open then," the trade source said.

## Flu Sources Analyzed

Global health officials have underestimated the risk that hog herds might be a source of new influenza strains, choosing instead to focus on the threat of bird flu, researchers in Mexico said on Thursday.

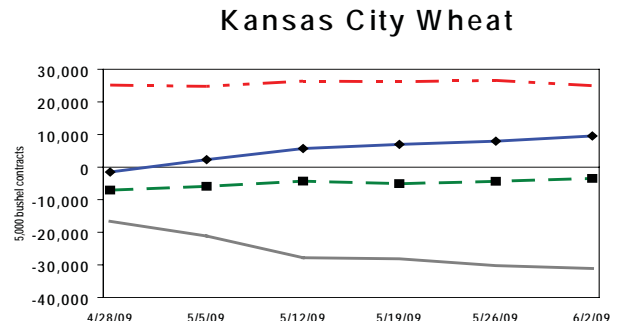
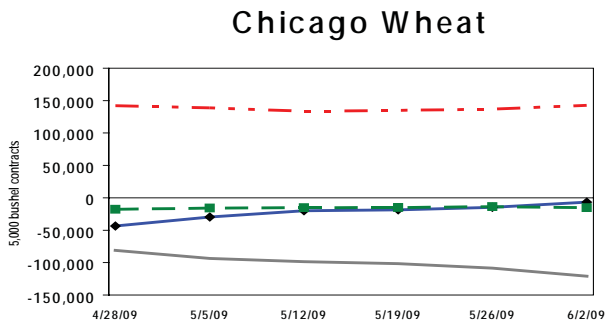
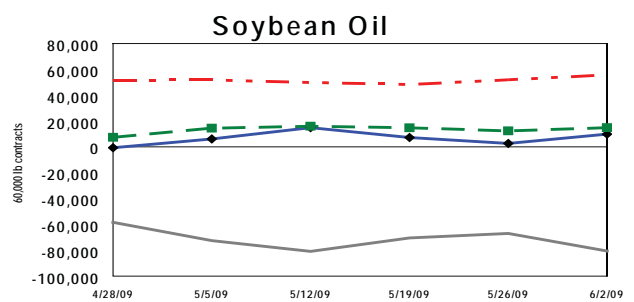
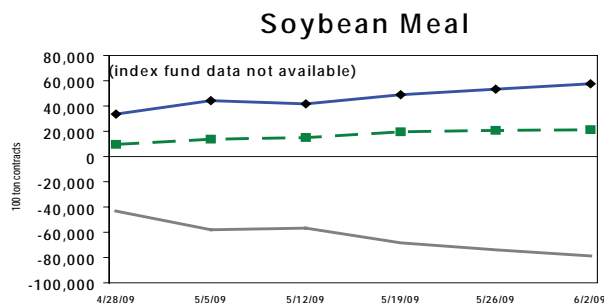
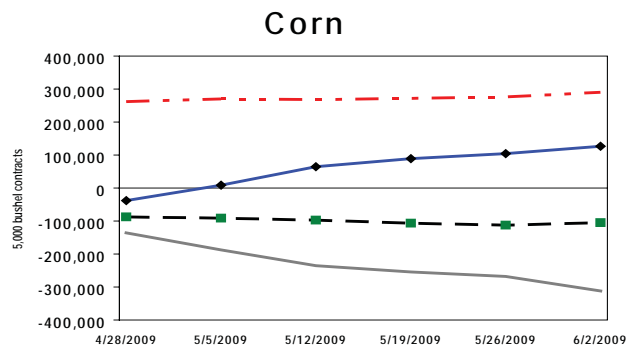
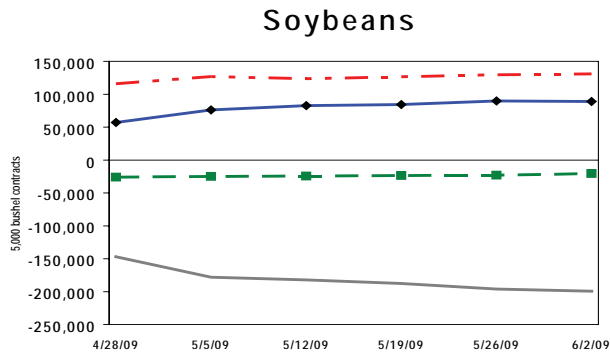
The Mexican researchers analyzed samples from people infected with the new A/H1N1 flu virus which has been confirmed in more than 19,000 people in 64 countries. "This virus most likely evolved from recent swine viruses," Gerardo Nava of the National Autonomous University of Mexico and colleagues wrote in their report, which was published in the online journal *Eurosurveillance*. "These findings indicate that domestic pigs in North America may have a central role in the generation and maintenance of this virus," they said. Nava's team looked at all available genetic sequences of H1N1 viruses circulating in North America for the past two decades, but did not find very many samples, which Nava said reflects how little testing is done to monitor influenza in swine herds. "I think we forgot about swine farms," Nava told Reuters News Service in a telephone interview.

He called for stepped-up testing of swine and said farmers, producers and government officials will have to consider the expensive possibility of mass slaughters of infected swine.

"The problem is not that the pig is going to die or even pass the virus to a human," Nava said. "The problem is that the virus is recombining (in the pig's body) and getting new sequences, new genes."

This week, USDA said it would launch a pilot surveillance program to look for new strains of flu virus in pigs

## Commitments of Traders, through June 2 Futures and Options Combined



◆ Large Speculators   
 — Commercial   
 ■ Small Participants   
 - - - Index Funds

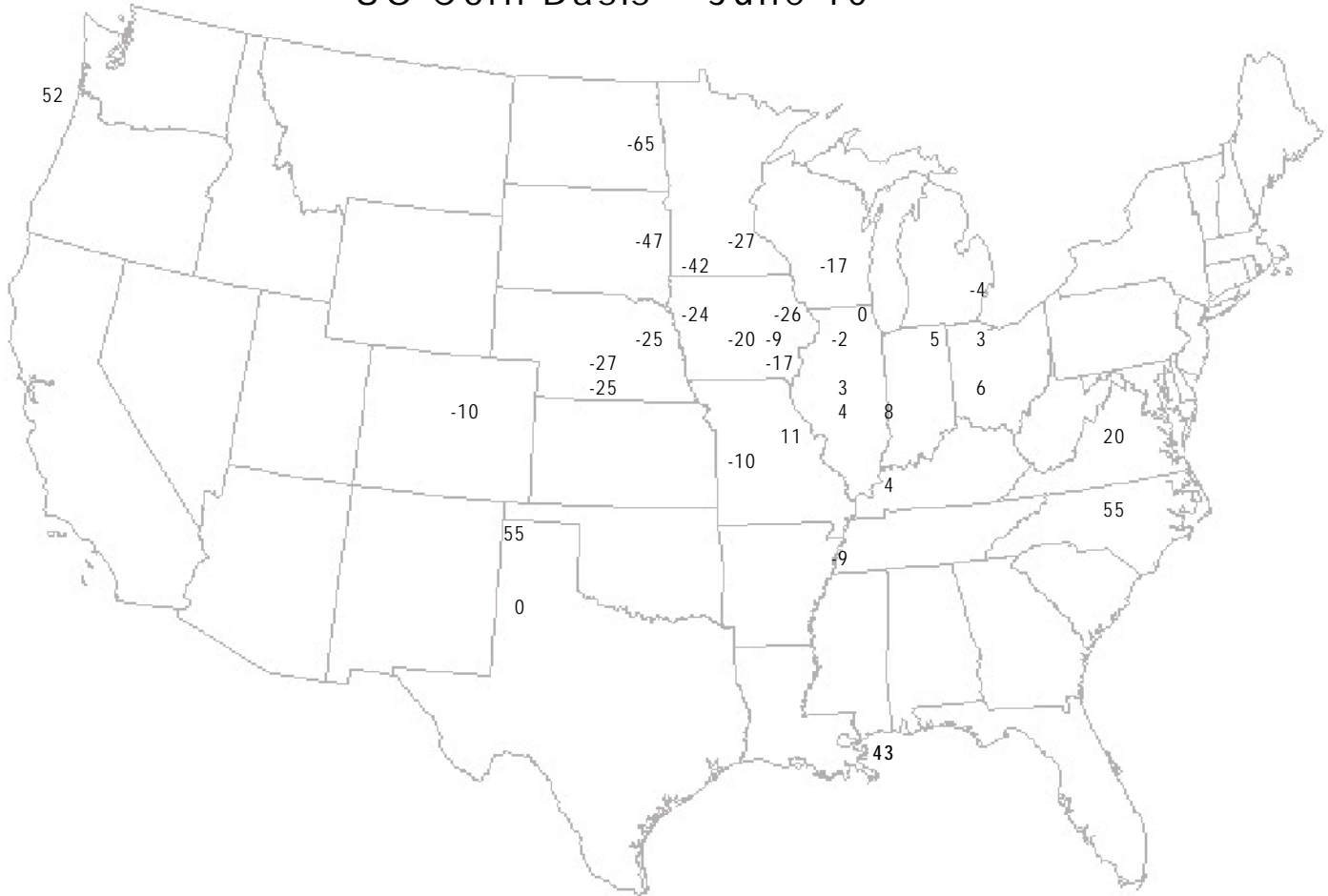
### COT Data Highlights

Open interest continues to explode in corn as index funds are now joining the party. Large speculators and index funds bought 36,000 contracts of corn last week, bringing large spec purchases to a net 160,000 contracts in the last six weeks. Curiously, index funds only net-bought 1,400 contracts of soybeans and large speculators were net sellers of 840 beans, indicating that the fund-driven rally might be ready to turn. In the last 6 weeks, open interest in corn is up 21%, soybeans 27% and soybean meal 47%.

### Basis Maps

Soybean basis is generally strong amid high meal demand, and some new crop bids are eye-poppingly strong. Gulf bids, however, are steady to weak as Chinese buyers appear to have moved on to South American supplies. Corn bids are generally stronger this week while wheat bids are sagging into harvest. Gulf basis for wheat is stronger, however, reflecting the weaker US dollar.

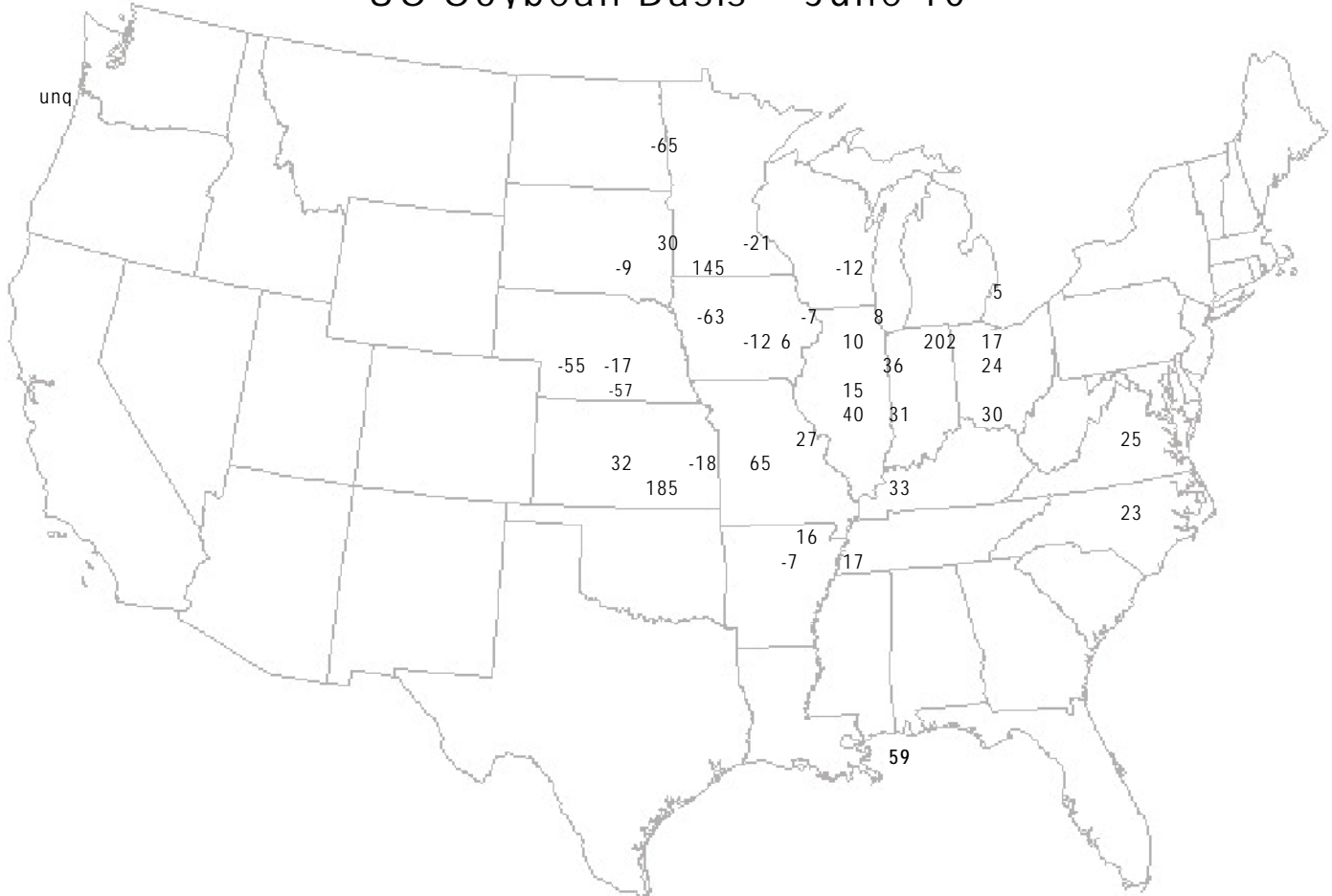
## US Corn Basis -- June 10



	Basis	Week Change		Basis	Week Change		Basis	Week Change
Des Moines, IA	-20 N	+3	South Bend, IN	5 N	+4	Dalhart, TX	0 N	+4
Cedar Rapids, IA	-26 N	-2	Omaha, NE	-25 N	-6	Hereford, TX (Rail)	55 N	+5
Keokuk, IA	-17 N	-4	Lincoln, NE	-27 N	+5	Milwaukee, WI	-17 N	+1
Burlington, IA	-9 N	+4	Blair, NE	-28 N	-3	Blissfield, MI	-4 N	+3
Eddyville, IA	-30 N	+6	Hastings, NE	-25 N	+6	Watertown, SD	-47 N	+2
Ft. Dodge, IA	-24 N	+3	Minneapolis, MN	-27 N	+16	Finley, ND	-65 N	-4
Chicago, IL	0 N	0	Marshall, MN	-42 N	+1	Denver, CO	-10 N	0
Central Illinois	4 N	+6	Toledo, OH	3 N	+5	Portland, OR/PNW	52 N	-8
Peoria, IL	-2 N	+3	Cincinnati, OH	6 N	+7	Memphis, TN	-9 N	-5
Decatur, IL	4 N	0	St. Louis, MO	11 N	+5	Louisville, KY	4 N	+15
Champaign, IL	3 N	+5	Kansas City, MO	-10 N	0	Richmond, VA	20 N	0
Decatur, IN	0 N	+5	Atchison, KS	-11 N	+1	Candor, NC	55 N	0
Evansville, IN	8 N	+4	Garden City, KS	-22 N	0	New Orleans Gulf	43 N	+6

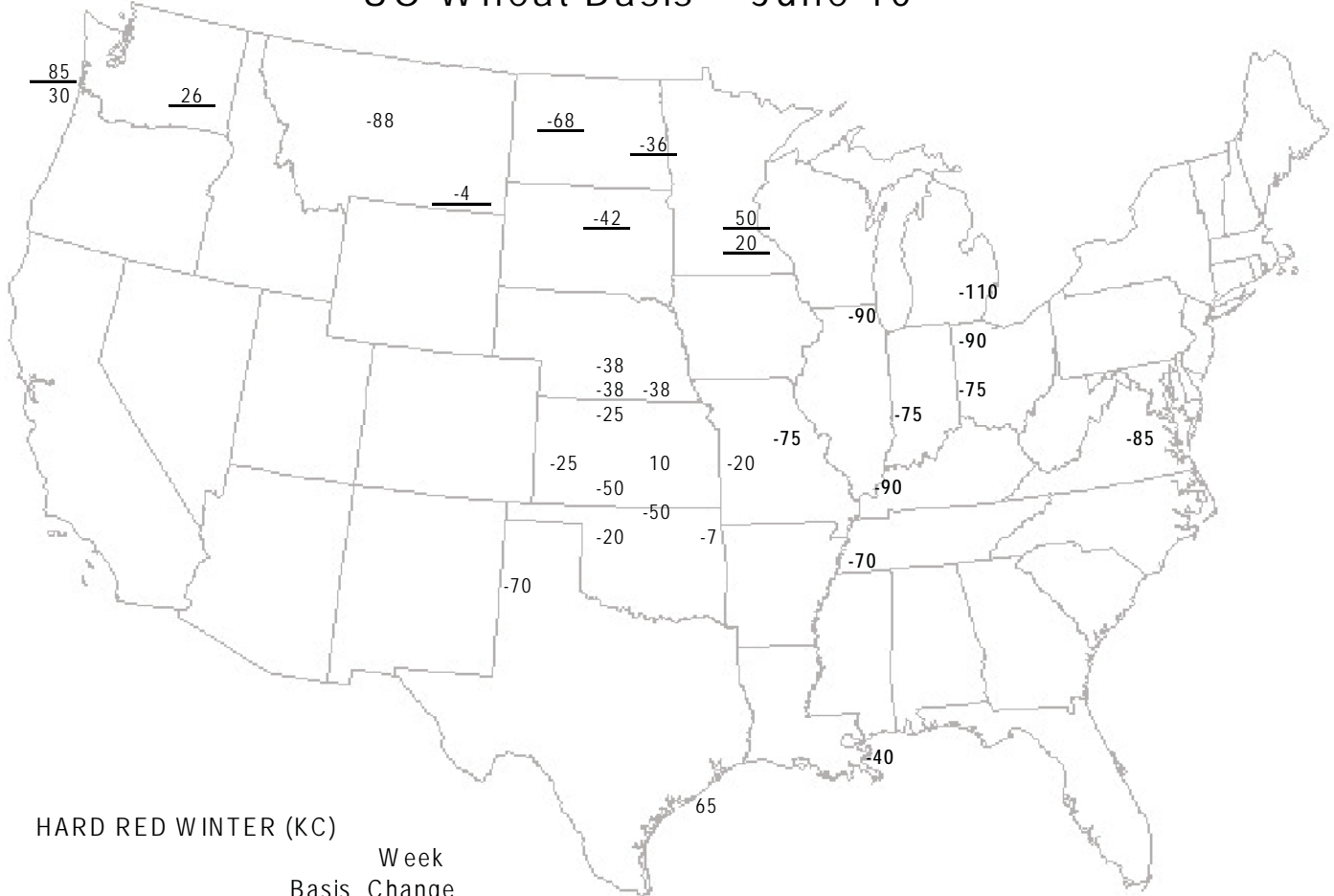
Due to elevators changing their basis month, weekly change data is not available for some data points.

## US Soybean Basis -- June 10



	Week		Week		Week						
	Basis	Change	Basis	Change	Basis	Change					
Des Moines, IA	-12	N	0	St. Louis, MO	27	N	-2	Hutchinson, KS	32	Q	-
Cedar Rapids, IA	-7	N	-1	Kansas City, MO	65	Q	-	Volga, SD	30	Q	-
Burlington, IA	6	N	+2	St. Joseph, MO	-7	N	-17	Mitchell, SD	-9	Q	-
Council Bluffs, IA	168	X	-	Toledo, OH	17	N	-10	Casselton, ND	-65	N	0
Sioux City, IA	-63	N	-33	Sidney, OH	24	N	-21	Portland, OR-rail	unq		-
Chicago, IL	8	N	0	Cincinnati, OH	30	N	+10	Milwaukee, WI	-12	N	+3
Central Ill.	40	N	-1	Minneapolis, MN	-21	N	-3	Blissfield, MI	5	N	-5
Peoria, IL	10	N	0	Mankato, MN	-8	N	+21	Little Rock, AR	-7	N	0
Bloomington, IL	0	N	-26	Brewster, MN	145	X	-	Osceola, AR	16	N	+4
Quincy, IL	29	N	-2	Lincoln, NE	-17	N	+33	Memphis, TN	17	N	-8
Champaign, IL	15	N	0	Grand Island, NE	-55	N	-13	Norfolk, VA	25	N	0
Evansville, IN	31	N	+5	Hastings, NE	-57	N	-27	Louisville, KY	33	N	+18
Frankfort, IN	36	N	+1	Emporia, KS	185	X	-	Raleigh, NC	23	N	-17
Decatur, IN	202	X	-	Atchison, KS	-18	N	-21	Gulf Barge	59	N	+2

## US Wheat Basis -- June 10


**HARD RED WINTER (KC)**

	Basis	Week Change
Kansas City, MO	-20 N	0
Hutchinson, KS	-25 N	-5
Concordia, KS	-25 N	0
Wichita, KS	10 N	+33
Dodge City, KS	-50 N	+10
Hastings, NE	-38 N	-1
Superior, NE	-38 N	+2
Lincoln, NE	-38 N	+2
Enid, OK	-20 N	+5
Ponca City, OK	-50 N	+2
Port of Catoosa, OK	-7 N	+8
Dalhart, TX	-70 N	0
Great Falls, MT	-88 N	-1
Texas Gulf CIF	65 N	-3
Portland, OR--PNW	30 N	0

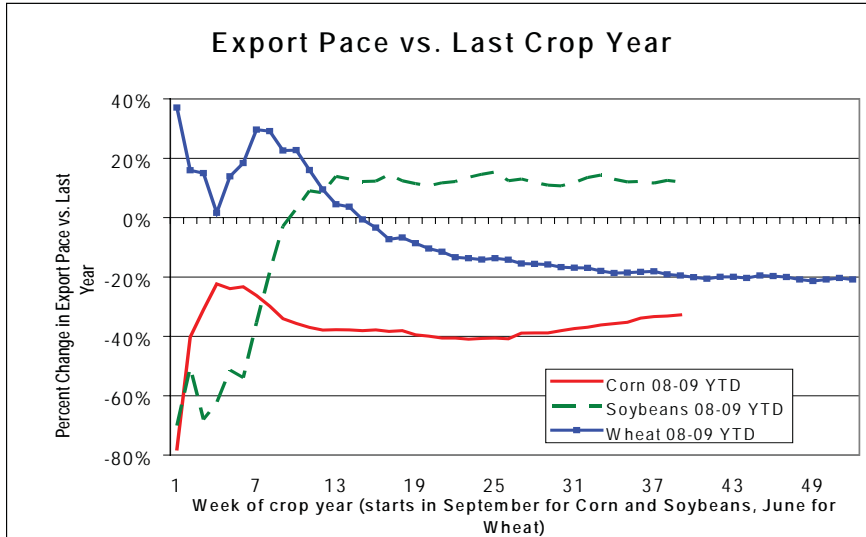
**HARD RED SPRING (Minn)**

	Basis	Week Change
Minneapolis, MN	20 N	0
Minneapolis, MN-Rail	50 N	-25
Minot, ND	-68 N	0
W. Fargo, ND	-36 N	0
Aberdeen, SD	-42 N	-12
Billings, MT	-4 N	+5
Walla Walla, WA	26 N	-6
Portland, OR-PNW	85 N	-10

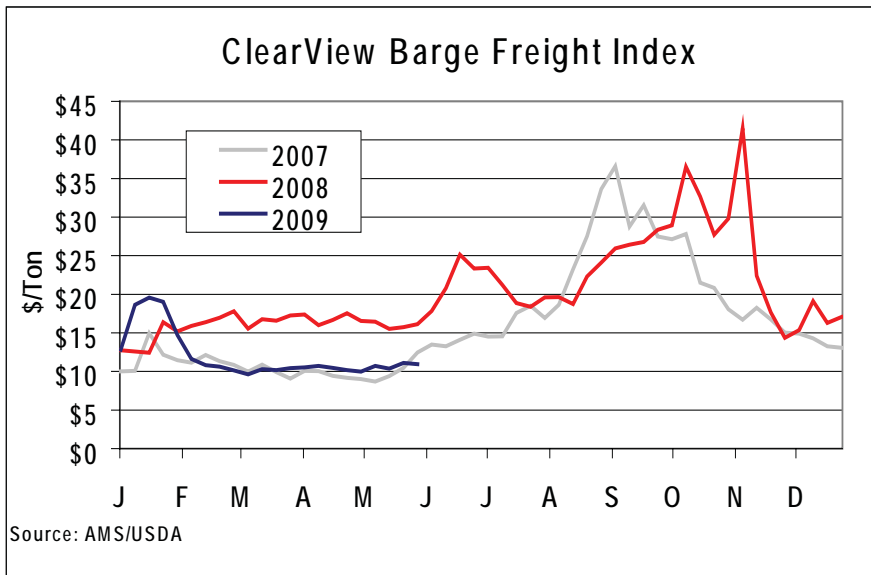
HRS Bids are Underlined  
SRW Bids are Bold

**SOFT RED WINTER (Chi)**

	Basis	Week Change
Toledo, OH	-90 N	0
Cincinnati, OH	-75 N	-3
Evansville, IN	-75 N	+5
Chicago, IL	-90 N	+2
St. Louis, MO	-75 N	+32
Blissfield, MI	-110 N	+1
Memphis, TN	-70 N	+5
Louisville, KY	-90 N	+15
Norfolk, VA	-85 N	-6
Gulf Barge SRW	-40 N	+13



YTD -- Corn: 31.52 MT, Soybeans: 29.29 MT, Wheat: 25.62 MT  
 ClearView Yearly Export Projections: (Million Tons, % change vs. last year)  
 Corn: 44.10 MT, -18.43% Soybeans: 32.96 MT, +8.85%  
 Wheat: 25.62 MT, -21.31%



Source: AMS/USDA

## Freight and Exports

Wheat enters a new marketing year with a decidedly negative export outlook, as US wheat production still projects to see slack demand due to overpriced conditions. Wheat exports dropped 20% in 08/09 and USDA projects a further 10% decline in 09/10. The Russian/Egyptian conflict over exported wheat quality took a turn this week as the Russian exporters demanded the return of 56,000 tons of wheat being held in quarantine as it had been resold to Indonesia.

Export inspections of about 8 million bushels last week were in line with expectations, but rather surprisingly, none of the exports were destined for China, a rather stark sign that the world's #1 soybean importer may be about to begin selling out the large domestic stocks they have built up in recent months. Corn export inspections of 25.9 million bushels, however, came in well below industry estimates of 31-39 million.

USDA estimated that the cost to ship grain from the US gulf to Japan at the end of May averaged \$49.50/MT, a 21% increase from May 1. Rates from the PNW to Japan were at \$26.50/MT, a similar increase. Demand from Chinese commodity stockpiling was cited as the driver of the increase.

	Mississippi River Barge Freight Rates (Southbound, \$/Ton)								1 year % Change
	Twin Cities	Mid-Mississippi	Illinois River	St. Louis	Cincinnati	Lower Ohio	Cairo-Memphis	Clearview Barge Index	
Jun 02 09	\$22.08	\$16.03	\$12.24	\$8.23	\$9.56	\$8.23	\$5.73	\$10.96	-38.6%
May 26 09	\$22.98	\$16.29	\$12.59	\$7.83	\$9.79	\$8.43	\$5.69	\$11.11	-31.2%
May 19 09	\$21.97	\$15.87	\$12.61	\$7.85	\$9.85	\$4.48	\$5.65	\$10.38	-34.1%
May 12 09	\$20.04	\$14.79	\$12.67	\$7.98	\$9.85	\$8.48	\$5.69	\$10.72	-30.9%
May 05 09	\$17.72	\$13.41	\$11.55	\$7.62	\$9.56	\$8.23	\$5.56	\$9.97	-39.4%

Past results are not necessarily indicative of future results.

There is risk of losses as well as profits when trading futures and options contracts.

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